

FY 1999-2000 Budget

CONSENSUS REVENUE

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This section explains May 1999 consensus revenue estimates for GF/GP and School Aid Fund revenue by major revenue sources. Several important assumptions behind the revenue estimates are discussed in the following text.

General Fund/General Purpose Revenue by Source

Personal Income Tax

The jobs base is expected to continue to expand, but at a slower rate in 1999 and 2000. Unemployment rates will remain low. This will lead to moderately slower growth in Michigan personal income and income tax revenues in FY 1999-2000.

Baseline GF/GP income tax revenues increased by 6.2% in FY 1997-98, to \$4,604.8 million. Income tax revenues are expected to increase 10.4% (to \$5,082.7 million) in FY 1998-99 and 3.9% in FY 1999-2000 (to \$5,279.3 million).

Sales and Use Taxes

Sustained growth in wage and salary income and sustained low unemployment will combine to increase baseline sales and use tax revenue from \$861.7 million in FY 1997-98 to \$943.4 million in FY 1998-99, and by 3.4% (to \$975.1 million) in FY 1999-2000.

Single Business and Insurance Taxes

Single Business Tax (SBT) revenues accrue to the GF/GP. Net baseline business taxes (SBT plus insurance taxes) were \$2,511.2 million in FY 1997-98 and will increase 11.3% (to \$2,794.0 million) in FY 1998-99 and 4.5% (to \$2,918.4 million) in FY 1999-2000.

Baseline Single Business Tax revenues alone were \$2,322.5 million in FY 1997-98; they are expected to increase 12.8% (to \$2,620.0 million) in FY 1998-99, and 4.6% (to \$2,740.0 million) in FY 1999-2000.

Baseline estimates do not include the full impact of SBT apportionment changes that will affect FY 1998-99 and FY 1999-2000 revenue collections.

GF/GP Baseline Tax Revenues

Baseline GF/GP tax revenues totaled \$8,587.5 million in FY 1997-98. General Fund/General Purpose baseline tax revenues are expected to increase by 9.9% (to \$9,440.4 million) in FY 1998-99 and by 3.9% (to \$9,806.9 million) in FY 1999-2000. Total GF/GP baseline tax revenues include the category labeled "Other Taxes" in the following table.

Total GF/GP Baseline Revenues

Total baseline GF/GP revenues include baseline tax revenues and non-tax revenues. Total GF/GP baseline revenues were approximately \$8,811.7 million in FY 1997-98. General Fund/General Purpose baseline revenues are expected to increase by 9.4% (to \$9,638.0 million) in FY 1998-99 and by 3.8% (to \$10,004.5 million) in FY 1999-2000.

, **Actual GF/GP Revenues**

Actual GF/GP revenues represent revenues available for expenditure each year. Actual GF/GP revenues are expected to be \$9,266.9 million in FY 1998-99 and are expected to increase 4.6% (to \$9,694.7 million) in FY 1999-2000.

GF/GP REVENUE ESTIMATES (Millions of Dollars and Fiscal Years)					
	1997-98	1998-99	1999-2000	<u>1999-2000 over 1998-99</u>	
				%Change	\$Change
Personal Income Taxes	\$4,604.8	\$5,082.7	\$5,279.3	3.9%	\$196.6
Sales and Use Taxes	861.7	943.4	975.1	3.4%	31.7
SBT and Insurance Taxes	2,511.2	2,794.0	2,918.4	4.5%	124.4
Other Taxes	609.8	620.3	634.1	2.2%	13.8
GF/GP Baseline Tax Revenues	\$8,587.5	\$9,440.4	\$9,806.9	3.9%	\$366.5
Non-Tax Revenue	224.2	197.6	197.6		
Total GF/GP Baseline Revenues	\$8,811.7	\$9,638.0	\$10,004.5	3.8%	\$366.5
Adjustments to Baseline	(46.1)	(371.1)	(309.8)		
Actual GF/GP Revenues	\$8,765.6	\$9,266.9	\$9,694.7	4.6%	\$427.8

School Aid Fund Revenue by Source

, **Sales and Use Taxes**

Baseline sales tax revenues will increase by 5.0% in FY 1998-99 and by 3.8% FY 1999-2000; baseline use tax revenue to the SAF will increase by 9.1% in FY 1997-98 and by 3.7% in FY 1998-99. Combined sales and use tax revenue dedicated to the SAF equaled \$4,480.6 million in FY 1997-98 and will increase by 5.4% (to \$4,721.9 million) in FY 1998-99 and by 3.8% (to \$4,901.5 million) in FY 1999-2000.

, **Income Tax**

Baseline dedicated income tax revenue will increase 7.8% (to \$1,832.4 million) in FY 1998-99 and by 4.7% (to \$1,919.4 million) in FY 1999-2000.

, **Lottery**

Lottery revenues contributed approximately \$616.1 million to the SAF in FY 1997-98. Baseline lottery revenues to the SAF are projected to decrease to \$592.0 million in FY 1998-99 and remain constant at \$592.0 million in FY 1999-2000.

Baseline revenue estimates do not include the impact of Detroit casinos. Additional Casino revenues may accrue to the SAF in FY 1999-00 if temporary casinos are in operation by then.

Consensus Revenues

Tobacco Taxes

Approximately 64.0% of gross tobacco tax revenue is dedicated to the School Aid Fund. The School Aid Fund received approximately \$363.0 million from tobacco taxes in FY 1997-98.

The demand for tobacco products is expected to decline slowly over the duration of the forecast. Total tobacco tax revenues are expected to decrease to \$357.1 million in FY 1998-99 and to \$351.4 million in FY 1999-2000.

State Education Tax

All of the 6-mill state education tax (SET) is dedicated to the SAF. Revenues from the SET were \$1,256.9 million in FY 1997-98. State Education Tax revenues are expected to increase 4.4% (to \$1,311.8 million) in FY 1998-99 and 5.4% (to \$1,382.3 million) in FY 1999-2000.

Transfer Tax

The transfer tax contributed \$227.9 million to the SAF in FY 1997-98 and will contribute \$242.0 million to the SAF in FY 1998-99 and \$228.0 million in FY 1999-2000, as a slower economy dampens the housing market somewhat.

Total SAF Baseline Revenues

Total SAF baseline revenues were \$8,796.5 million in FY 1997-98. Baseline revenues are expected to increase 4.7% (to \$9,210.2 million) in FY 1998-99 and 3.5% (to \$9,528.1 million) in FY 1999-2000.

Actual SAF Revenues

Actual SAF revenues represent revenues available for expenditure each year. Actual SAF revenues include federal funds and BSF transfers to the SAF. Actual SAF revenue does not include any GF/GP transfers to SAF or beginning fund balances. Actual SAF revenues were \$9,110.3 million in FY 1997-98 and are expected to increase 2.2% to \$9,313.3 million in FY 1998-99 and 3.9% to \$9,680.1 million in FY 1999-2000.

SCHOOL AID FUND REVENUE ESTIMATES					
Revenues	Millions of Dollars			1999-2000 over 1998-99	
	FY 1997-98	FY 1998-99	FY 1999-2000	% Change	\$ Change
Sales and Use Tax	\$4,480.6	\$4,721.9	\$4,901.5	3.8%	179.6
Income Tax Earmark	1,699.4	1,832.4	1,919.4	4.7%	87.0
Lottery	616.1	592.0	592.0	0.0%	0.0
Tobacco Taxes	363.0	357.1	351.4	-1.6%	(5.7)
State Education Tax	1,256.9	1,311.8	1,382.3	5.4%	70.5
Transfer Tax	227.9	242.0	228.0	-5.8%	(14.0)
Liquor Excise and Specific Taxes	152.6	153.0	153.5	0.3%	0.5
Baseline SAF Revenues	\$8,796.5	\$9,210.2	\$9,528.1	3.5%	\$317.9
Adjustments to Baseline	313.8	103.1	152.0		
Actual SAF Revenues (less GF/GP Transfer)	\$9,110.3	\$9,313.3	\$9,680.1	3.9%	\$366.8

HFA Estimates of Year-End Balances

Consensus Revenues

The table below reports House Fiscal Agency estimates of year-end balances for GF/GP, the SAF, and the BSF.

- , Fiscal year 1997-98 year-end balances are reported in *State of Michigan Comprehensive Annual Financial Report: FY 1997-98*.
- , Fiscal year 1998-99 and FY 1999-2000 estimates are based on year-to-date appropriations and consensus revenue estimates.
- , Fiscal year 1998-99 and FY 1999-2000 Budget Stabilization Fund estimates are based on current balance estimates provided by the Michigan Department of Treasury and HFA estimates of future deposits and interest earned.

Pursuant to P.A. 144 of 1997, any year-end balance in GF/GP for FY 1997-98 and thereafter will be transferred to the BSF.

School Aid Fund revenues are restricted; hence, any year-end balance is carried forward to the subsequent year.

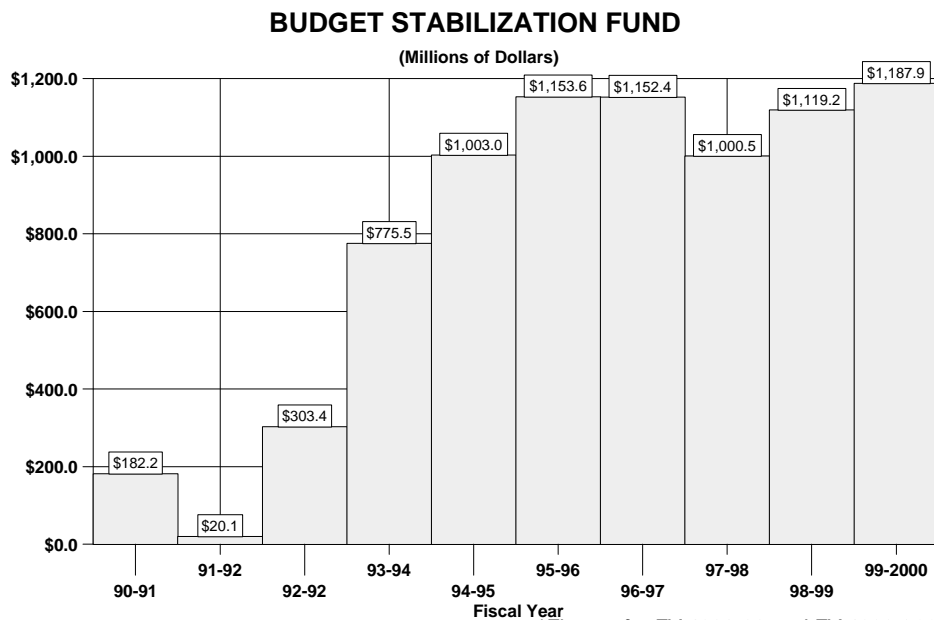
YEAR-END BALANCE ESTIMATES (Millions of Dollars)			
	FY 1997-98	FY 1998-99	FY 1999-2000
General Fund/General Purpose	\$55.2	\$13.5	\$212.1
School Aid Fund	274.3	431.1	379.3
Budget Stabilization Fund	1,000.5	1,119.2	1,187.9

Consensus Revenues

Budget Stabilization Fund Year-End Balances

The following table and figure show a history of BSF deposits, withdrawals, and interest earnings from FY 1990-91 to FY 1996-97. The table includes HFA estimates of deposits, expected interest earnings, and year-end balances for FYs 1998-99 and 1999-2000. A complete list of BSF historical data is available from the HFA upon request.

BUDGET STABILIZATION FUND (Millions of Dollars)				
Fiscal Year	Deposits	Withdrawals	Interest Earned	Balance
1990-91	0.0	230.0	27.1	182.2
1991-92	0.0	170.1	8.1	20.1
1992-93	282.6	0.0	0.8	303.4
1993-94	460.2	0.0	11.9	775.5
1994-95	260.1	90.4	57.7	1,003.0
1995-96	91.3	0.0	59.3	1,153.6
1996-97	0.0	69.0	67.8	1,152.4
1997-98	0.0	212.0	60.1	1,000.5
1998-99 <i>Estimates</i>	130.2	73.7	62.2	1,119.2
1999-2000 <i>Estimates</i>	37.1	32.0	63.6	1,187.9



*Figures for FY 1998-99 and FY 1999-2000 are HFA estimates.

Compliance with the State Revenue Limit

HFA estimates of the state revenue limit provided for in Article IX, Section 26, *Constitution of the State of Michigan*, and estimates of total state revenue collections subject to the state revenue limit are shown in the following table. As provided for in the *Constitution*, the revenue limit is calculated as 9.49% of total state personal income in the previous full calendar year prior to the fiscal year in which the revenues are measured, as estimated by the Bureau of Economic Analysis, United States Department of Commerce.

COMPLIANCE WITH THE STATE REVENUE LIMIT (Millions of Dollars)			
Revenue Limit Calculations	FY 1997-98	FY 1998-99	FY 1999-00
Personal Income			
Calendar Year	CY 1996	CY 1997	CY 1998
Amount	\$239,330	\$244,329	\$253,841
X Limit Ratio	9.49%	9.49%	9.49%
State Revenue Limit	\$22,712.4	\$23,186.8	\$24,089.5
Total Revenues Subject to Revenue Limit	22,039.0	22,982.5	23,970.2
Amount Under (Over) State Revenue Limit	\$673.4	\$204.3	\$119.3

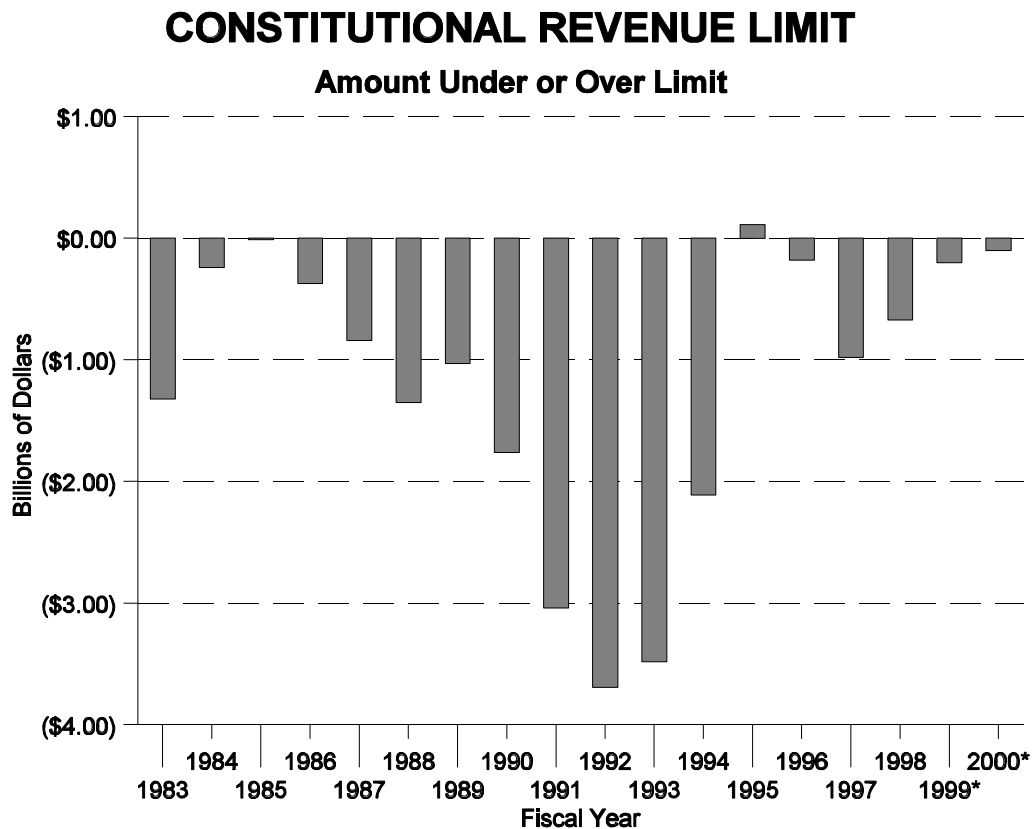
Consensus Revenues

Implications of Exceeding the State Revenue Limit

Article IX, Section 26, *Constitution of the State of Michigan*, provides that:

. . . For any fiscal year in the event that Total State Revenues exceed the limit established in this section by 1% or more, the excess revenues shall be refunded pro rata based on the liability reported on the Michigan income tax and single business tax (or its successor tax or taxes) annual returns filed following the close of such fiscal year. If the excess is less than 1%, this excess may be transferred to the State Budget Stabilization Fund. . . .

Furthermore, the state is prohibited from spending any current-year revenue in excess of the limit established in Section 26 by Article IX, Section 28.



* HFA estimates

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